

## Inflation and IIP largely in-line; trade deficit remains unchanged

India's retail inflation (CPI) inched further to an 8-month high of 3.2% in June (NSE est.: 3.4%, Reuters poll: 3.2%), mainly led by a sequential rise food prices, especially vegetables, meat, fish and pulses. Further, with the ongoing monsoon deficit in the country, the high frequency indicators suggest a sustained upward trend in food prices in July as well. On the other hand, core inflation (ex-food ex-fuel) continued to fall to 4.1% in Jun'19, led by a decline in transportation and communication segment for the month. Wholesale price inflation came in-line with our estimate at 2.0% in June (Reuters poll: 2.4%) – falling to a two year low – largely on account of a sustained weakness in both fuel and manufacturing inflation. The index of industrial production (IIP) softened in May to 3.1% (NSE est.: 2.8%, Reuters poll: 3.2%), as mining and manufacturing disappointed, while electricity surprised positively. Trade deficit remained unchanged at US\$15.3bn in June (NSE est.: US\$14.0bn, Reuters poll: US\$15.6bn) led by a sharp contraction across both exports and imports.

With inflation well within the RBI's target range, the Monetary Policy Committee's (MPC) new accommodative stance and the Govt.'s adherence to fiscal prudence, we reaffirm our call of an incremental 50bps rate cut this fiscal, with 25bps cut expected in the August policy. However, the monsoon uncertainty, kharif sowing supply and transmission of past rate cuts would remain the determining factors for the rate trajectory going forward.

- **Inflation inches marginally to an 8-month high:** Retail inflation (CPI) came in at 3.2% in Jun'19 from 3.1% in May'19, marginally lower than our estimate of 3.4%, led by a continued rise in food & beverages inflation (by 34bps) that rose to a one-year high. Prices of vegetables, pulses, meat and fish, cereals, and fruits posted sequential gains. The high frequency data suggests that food prices have sustained their upward momentum in July. Meanwhile, fuel inflation moderated slightly to 2.3% in June from 2.5% in the previous month. Core inflation (ex-food ex-fuel) contracted further to 4.1% in June from 4.2% in May, as inflation across transportation and communication segment further came down to 0.7% (1.6% in May), even as health and education components continued to impart positive impulses. Housing inflation remained unchanged at 4.8%. Wholesale price inflation (WPI) came in – line with our estimates at 2.0% in June – falling to a 2-year low, as the contraction in fuel and manufacturing inflation more than offset the rise in food prices. While CPI is seen rising in the near-term, we believe RBI's forecast for the inflation trajectory at 3.0-3.1% in H1FY20 and 3.4-3.7% in H2FY20 is likely to be met, and inflation will likely remain well within RBI's comfort zone of 4%+/-2%.
- **Industrial production softened in May:** Industrial production softened to 3.1% in May, from the revised figure of 4.3% in April, slightly above our estimate of 2.8%. While mining and manufacturing disappointed falling to 3.2% and 2.5% respectively (vs. 5.1% and 4.0% in April), electricity surprised positively, registering strong gains of 7.4% in May (from 6.0% in April). Among manufacturing sectors, 12/22 sectors reported positive growth with wood products, straw material, food products and electronic items leading the pack, while paper, furniture and fabricated metals were the laggards. This was also in-line with the eight-core electricity print of 7.2% in May. The slowdown in investment and consumption was visible in the tepid performance of capital goods and consumer goods that fell to 0.8% and -0.1% respectively in May (vs. 1.2% and 2.2% in April). On a positive note, consumer non-durables grew by a strong 7.7% in May – the highest gain in 7 months.
- **Trade deficit broadly unchanged:** Trade deficit came in at US\$15.3bn, higher than our estimate of US\$14.0bn, as the contraction in exports widened the overall deficit figure. Exports dropped to US\$25bn in June – the lowest in 20 months – falling sharply by 9.7% yoy. This was mainly led by the global slowdown that has impacted global exports, with India no exception. Further, imports contracted by a sharp 9.1%yoy to US\$40.2bn, as both oil and gold imports fell over the month. In addition, non-oil non-gold imports continued to fall for the sixth consecutive month by a sharp 9% yoy.

- Way forward:** We believe inflation is likely to remain well within RBI's comfort zone of 4% +/-2%, as even though food inflation is imparting an upward bias on the trajectory, the moderation in core inflation is likely to keep the headline under check. Further, the latest change in MPC's policy stance to accommodative and the Govt.'s adherence to fiscal prudence, augurs well for an incremental 50bps rate cut this year, including a 25bps cut in the August policy meet.

**Figure 1: Consumer price inflation (%YoY)**

	Weight (%)	Jun-19	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
<b>CPI</b>		<b>3.2</b>	<b>3.4</b>	<b>3.0</b>	<b>4.9</b>	<b>3.1</b>	<b>4.8</b>
Food & Beverages	45.9	2.4	2.3	2.0	3.1	1.9	3.1
Pan, Tobacco & Intoxicants	2.4	4.1	4.2	3.9	8.1	4.1	8.0
Clothing & Footwear	6.5	1.5	1.6	1.8	5.6	1.8	5.4
Housing	10.1	4.8	5.7	4.8	8.4	4.8	8.5
Fuel & Light	6.8	2.3	1.8	2.5	7.2	2.5	6.1
Miscellaneous	28.3	4.4	4.6	4.6	5.7	4.7	5.3

Source: CSO, NSE

**Figure 2: Wholesale price inflation (%YoY)**

	Weight (%)	Jun-19	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
<b>WPI</b>		<b>2.0</b>	<b>2.0</b>	<b>2.5</b>	<b>5.7</b>	<b>2.6</b>	<b>4.7</b>
Primary articles	22.6	6.7	6.5	6.2	4.7	6.5	3.7
Fuel & power	13.2	(2.2)	(0.6)	1.0	16.5	0.8	12.3
Manufactured products	64.2	0.9	1.0	1.3	4.2	1.4	3.8
Food group	24.4	5.0	5.3	5.1	1.6	4.9	1.2

Source: CSO, NSE

**Figure 3: Industrial production (%YoY)**

	Weight (%)	May-19	May-19E	Apr-19	May-18	Apr-May'19	Apr-May'18
<b>IIP</b>		<b>3.1</b>	<b>2.8</b>	<b>4.3</b>	<b>3.8</b>	<b>3.7</b>	<b>4.7</b>
Sector-based indices							
Mining	14.4	3.2	3.9	5.1	5.8	4.1	5.5
Manufacturing	77.6	2.5	2.5	4.0	3.6	3.2	4.6
Electricity	8.0	7.4	3.1	6.0	4.2	6.7	4.7
Use-based Goods							
Primary Goods	34.0	2.5	1.9	5.1	5.7	3.7	5.1
Capital Goods	8.2	0.8	(1.9)	1.2	6.4	1.0	5.9
Intermediate Goods	17.2	0.6	0.6	1.9	0.1	1.3	0.6
Infra/Construction Goods	12.3	5.5	6.9	7.2	7.6	6.4	7.5
Consumer Goods	28.2	4.3	6.6	4.2	1.9	4.2	5.0
Consumer Durables	12.8	(0.1)	(1.9)	2.2	6.7	1.0	6.7
Consumer Non-durables	15.3	7.7	7.8	5.9	(1.6)	6.8	3.7

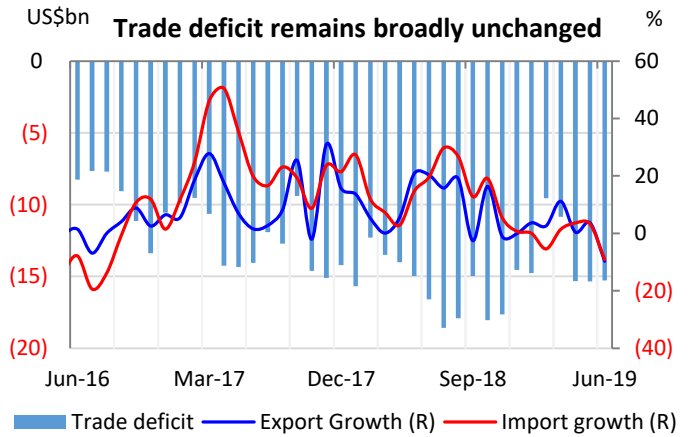
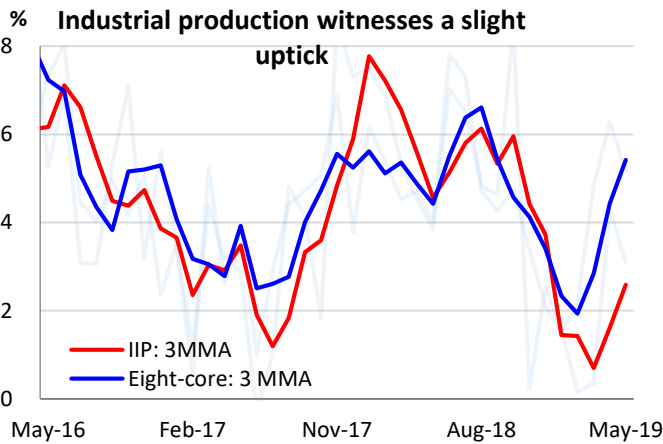
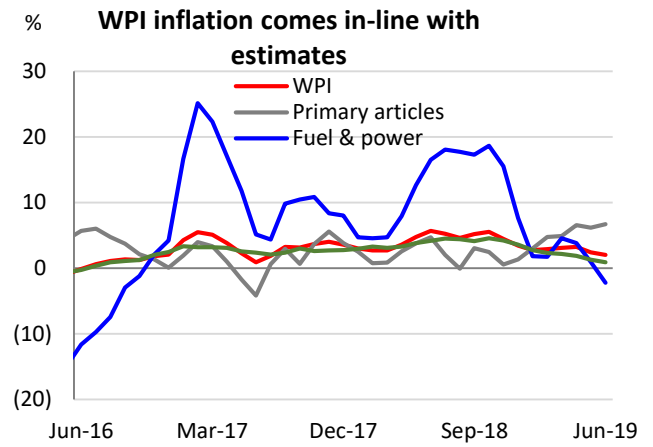
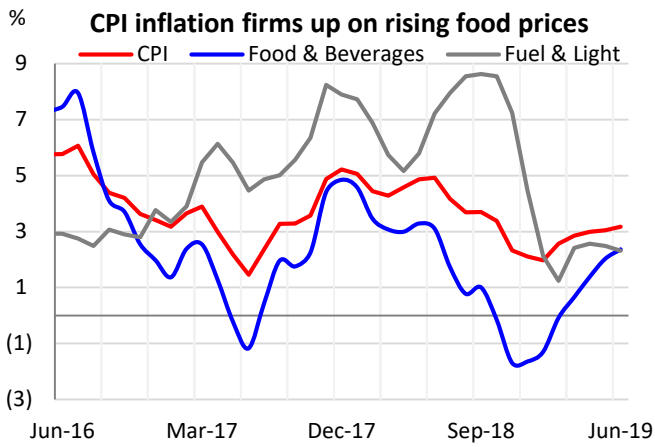
Source: CSO, NSE

**Figure 4: Trade balance**

		Jun-19	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
Exports	US\$ bn	25.0	29.0	30.0	27.7	81.1	82.6
	%YoY	(9.7)	4.7	3.7	20.4	(1.8)	15.5
Imports	US\$ bn	40.3	43.0	45.4	44.3	127.0	128.2
	%YoY	(9.1)	(2.9)	3.3	19.6	(0.9)	12.3
<b>Trade balance</b>	<b>US\$ bn</b>	<b>(15.3)</b>	<b>(14.0)</b>	<b>(15.3)</b>	<b>(16.6)</b>	<b>(46.0)</b>	<b>(45.6)</b>

Source: Ministry of Commerce, NSE

\*E- NSE estimates

**Figure 5: Macro data charts**


Source: CSO, Ministry of Commerce, NSE

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